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State of Montana

Report to the Legislature

April 1991

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1990

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Montana College of Mineral Science and Technology

This report contains recommendations for improvement in the college's operations. Items addressed in the report include:

- Personal service expenditures charged to federal grants.
- Accounting for equipment purchased with federal funds.
- Construction project review and approval.
- Unrecorded activity.
- Management's control of payroll.
- Accounting for financial activity in accordance with state law.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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April 1991

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana College of Mineral Science and Technology, including the Bureau of Mines, for the two fiscal years ended June 30, 1990. Included in this report are recommendations concerning grant requirements, payroll controls, and compliance with state and federal laws and regulations. The college's written response to audit recommendations is included in the back of the audit report.

We thank the president and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1990

Montana College of Mineral Science and Technology

Members of the audit staff involved in this audit were: Jody Bisom, Jeane Carstensen, Wayne Kedish, Rich McRae, Victoria Murphy, Paul J. O'Loughlin, Lorry Parriman, and Cindy D. Susott.

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John Hintz	Vice President for Administrative and Student Affairs
John Badovinac	Controller/Business Manager

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the college's and the commissioner's offfice responses thereto, and a reference to the supporting comments.

Recommendation #1 — We recommend the college ensure federal grant expenditures are properly supported by time and effort reports in accordance with federal regulations. 5

College Response: Concur. See page 43.

Recommendation #2 — We recommend the college charge additional compensation in accordance with federal regulations. 6

College Response: Concur. See page 43.

Recommendation #3 — We recommend the college establish procedures to charge leave benefits in accordance with federal regulations. 7

College Response: Concur. See page 43.

Recommendation #4 — We recommend the college:

A. Identify equipment purchased, in part or in whole, with federal funds on the property records in accordance with federal regulations. 8

College Response: Concur. See page 43.

B. Conduct a physical inventory of fixed assets in accordance with federal regulations and state policy. 8

College Response: Concur. See page 44.

Recommendation #5 — We recommend the college separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations. 9

College Response: Concur. See page 44.

Summary of Recommendations

Recommendation #6	We recommend the college obtain required review and approval in accordance with state laws and Montana university system policy prior to commencement of building projects.	11
	College Response: Concur. See page 44.	
Recommendation #7	We recommend the college deposit all college moneys in the state treasury and account for its financial activity on the state's accounting records.	12
	College Response: Concur. See page 44.	
Recommendation #8	We recommend the college establish and implement an adequate control system over payroll.	16
	College Response: Concur. See page 44.	
Recommendation #9	We recommend the college transfer the loan account to the Current Unrestricted Fund in accordance with state law.	18
	College Response: Concur. See page 45.	
Recommendation #10	We recommend the college establish procedures in accordance with state policy to minimize duplicate payments.	18
	College Response: Concur. See page 45.	
Recommendation #11	We recommend the college write off accounts receivable in accordance with state policy.	19
	Commissioner of Higher Education Response: Concur. See page 47.	
Recommendation #12	We recommend the college perform timely accounts receivable reconciliations to ensure the accuracy and completeness of the state's accounting records.	20
	College Response: Concur. See page 45.	

Introduction

We performed a financial-compliance audit of Montana College of Mineral Science and Technology (college) for the two fiscal years ended June 30, 1990. The objectives of our audit were to:

1. Determine if the college complied with applicable laws and regulations which could have a significant effect on the financial statements.
2. Make recommendations for improvement in the management and internal controls of the college.
3. Determine if the financial statements present fairly the financial position and results of operations of the college for the two fiscal years ended June 30, 1990.
4. Determine the implementation status of prior audit recommendations.

This report contains 12 recommendations to the college. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Areas of concern deemed not to have a significant effect on the successful operations of the college are not specifically included in this report, but have been discussed with management.

Background

Montana College of Mineral Science and Technology is one of fourteen institutions which comprise the Montana University System. The college is under the control and supervision of the Board of Regents of Higher Education. The 3rd Legislative Assembly established the college in 1893. It was initially named the Montana School of Mines, and in 1965, the name was changed to Montana College of Mineral Science and Technology.

The 1919 Legislative Assembly established the Montana Bureau of Mines and Geology as a department of the college. The bureau is charged with research regarding geology, production, treatment, and economics of mineral resources. The financial activity of the bureau is included in the college's records and financial statements.

The college is financed primarily by appropriations from the state's General Fund, the University Millage Account, and student tuition and fees. Revenue is also generated from federal grants, private gifts and grants, and auxiliary enterprise operations. According to college records, there were approximately 560 employees during fiscal year 1989-90.

The college offers the following engineering degrees: environmental, geological, geophysical, metallurgical, mining, petroleum, science, and occupational safety and health. The college also offers degrees in business administration, chemistry, computer science, mathematics, and society and technology.

The following schedule illustrates the number of full-time equivalent (FTE) students enrolled at the college during fiscal years 1988-89 and 1989-90.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1990

Semester	Year	Undergraduate FTE [1]	Graduate FTE [2]	Total FTE
Summer	1988	145	19	164
Fall	1988	1,444	61	1,505
Spring	1989	1,357	63	1,420
Summer	1989	132	9	141
Fall	1989	1,399	53	1,452
Spring	1990	1,351	53	1,404

[1] Undergraduate semester credit hours divided by 15.

[2] Graduate semester credit hours divided by 12.

Source: Compiled by the Office of the Legislative Auditor from college records

Prior Audit Recommendations

Prior Audit Recommendations

The previous financial-compliance audit of the college for the two fiscal years ending June 30, 1988 contained two recommendations still applicable to the college. The college implemented both prior audit recommendations.

Findings and Recommendations

Compliance with Federal Regulations

The college receives funds from federal, state, and private sources for research, instruction, or other projects conducted by the college. The college's Bureau of Mines and Geology oversees projects sponsored by grants or governed by contracts. Total expenditures from grant and contract sources were $1,583,970 and $1,488,663 for fiscal years 1988-89 and 1989-90, respectively. Of these amounts, expenditures charged to federal grant projects totaled $847,849 in fiscal year 1988-89 and $805,644 in fiscal year 1989-90. The college received approximately 90 percent of its grants from the following federal agencies under the noted federal catalog numbers during the audit period: Department of Interior (CFDA #15.221, 15.308, 15.502, and 15.803), Environmental Protection Agency (CFDA #66.419 and 66.423), National Science Foundation (CFDA #47.604 and 47.066), and Department of Labor (CFDA #17.500). During the audit we noted the following areas where the college should improve procedures to comply with federal regulations.

Personal Service Charges to Grants

The college uses time and effort reports to document the extent of time employees work on specific projects. The time and effort reports are after the fact reports in which the employee certifies the time spent on a particular grant. However, these reports are not used by the college to determine charges to the grants. Office of Management and Budget (OMB) Circular A-21, requires direct cost records to reflect time spent on each individual grant. Payroll charges are limited to time actually spent on a particular grant. The regulations also require the reports be certified by the employee and the principal investigator or other responsible official, using suitable means to verify work was performed.

During the audit we reviewed the college's procedures for recording time spent on grants and the related charge to the grants. We reviewed 82 time and effort reports for fiscal year 1989-90 and noted 12 reports did not support personal service charges to federal grants. For example, during July 1989, an

employee certified 5 percent of his time was spent on a federal grant but the grant was charged 75 percent of the employee's salary. This resulted in an overcharge to the grant of $1,086. We determined unsupported personal service charges to federal grants ranged from $137 to $4,973 during fiscal year 1989-90. Total unsupported charges during this period were $7,259 all of which were billed to the Environmental Protection Agency (CFDA #66.419 and 66.423); therefore, we question the allowability of these charges. The college should have procedures to ensure the time and effort reports support charges to grants.

Recommendation #1

We recommend the college ensure federal grant expenditures are properly supported by time and effort reports in accordance with federal regulations.

Personal Services Charged in Excess of Base Rate

The college authorizes additional compensation to employees when job duties exceed those outlined in the employee's contract. During fiscal year 1988-89, additional compensation provided to an employee was charged against a federal grant at a rate higher than the employee's base contract salary. The employee was paid a lump sum of $200 per month in addition to his contract salary for the first four months of the fiscal year. The college's payroll system does not document hours actually worked on the grant to support these payments. The college then changed procedures and paid the additional compensation based upon actual hours worked. The employee's base rate was $12.36 per hour; however, the federal grant was charged $13.51 per hour. Federal regulations, OMB Circular A-21, allow for additional compensation for work performed on sponsored agreements at the base salary rate, but prohibits exceeding this rate, unless approved in writing by the sponsoring agency. The college did not obtain written approval for the additional compensation from the subgrantor, the Montana Department of

Health and Environmental Sciences. This resulted in an overcharge to a federal grant from the Environmental Protection Agency (CFDA #66.419) of $1,550 during fiscal year 1988-89; therefore, we question the allowability of these charges. College officials believe the additional compensation charges were reasonable. During fiscal year 1989-90, the college changed its procedures for paying additional compensation to comply with federal regulations.

Recommendation #2

We recommend the college charge additional compensation in accordance with federal regulations.

Overcharge of Leave Benefits

Grant provisions allow benefit charges, such as annual and sick leave, when employees work on the grant. We reviewed the college's procedures for charging leave benefits to grants and determined procedures used resulted in duplicate charges to the individual grants. When leave is earned, a percentage of benefits is charged to each grant. The college pools and retains these funds for future payments for leave earned by the employees. In addition, when the employee uses leave benefits during a specific month, the college charges the leave to the grant the employee worked on during the time leave was taken, not to the grant in which the leave benefits were earned or the pool. Federal regulations, OMB Circular A-21, allow leave benefit charges to the extent earned on the grant.

During our review we noted three instances where leave was charged to the grant when earned and again when taken by the employee. This resulted in an overcharge of leave benefits to federal and state grants reviewed of $1,645, which includes federal grant overcharges to the Environmental Protection Agency (CFDA #66.423) of $49 and the Department of Interior (CFDA #15.221) of $70; therefore, we question the allowability

of these charges. The remaining $1,526 in overcharges involved state grants.

Recommendation #3

We recommend the college establish procedures to charge leave benefits in accordance with federal regulations.

Fixed Asset Records

The college uses the state's Property Accountability Management System (PAMS) to manage and account for its fixed assets. The college recorded fixed assets of $37,525,547 on the state's accounting records at June 30, 1990, which included $8,922,247 of equipment.

During the audit, we noted the college does not identify on PAMS equipment purchased either in part or in whole with federal funds. Federal regulations, OMB Circular A-110 (Attachment N), require that the property records identify equipment purchased, in part or in whole, with federal funds. The property records should also identify the source of the property including the grant or other agreement number and the percent of federal participation in the equipment's cost. If the required information is maintained, federal regulations allow state agencies to include equipment purchased with nonfederal funds or funds not used to match a federal grant in its indirect cost calculation. Since the college does not identify equipment purchased with federal participation on its accounting records, equipment charges are not allowable as a part of the college's indirect cost calculation. This could result in less indirect costs being recovered by the college.

College officials stated they could identify equipment purchased with federal funds during recent years by using the accounting records, but they could not identify the funding source for equipment purchased in prior years. During fiscal year

1990-91, the college began identifying equipment purchased with direct federal funds on the property records; however, the match used for federal grants is still not properly identified.

In addition, the college has not completed a physical inventory count since June 1988. Federal regulations and state policy require an inventory of equipment and reconciliation of count results to the property records at a minimum of every two years. College personnel stated the college requested each department to perform a count of inventory items during May 1989 and 1990, but did not have sufficient personnel to determine if the inventory count results were complete and agreed to the property records. The college should complete an inventory count of fixed assets at least every two years to ensure its property records are complete and accurate.

Recommendation #4

We recommend the college:

A. Identify equipment purchased, in part or in whole, with federal funds on the property records in accordance with federal regulations.

B. Conduct a physical inventory of fixed assets in accordance with federal regulations and state policy.

Accounting for Grant Match

The college is a recipient of several federal grants which require a state or private match to the grant. The college maintains a system to track personal service expenditures used to match specific federal grants; however, the match for operating expenditures and equipment purchases are not separately identified as expenditures for the grant matched. Federal regulations, OMB Circular A-110 (Attachment F), state, "Recipients' financial management systems shall provide for accurate, current, and complete disclosure of financial results of each federally sponsored project or program."

We reviewed two federal grants which require an expenditure match with state or private funds and determined the college could not specifically identify which expenditures were used to match a particular federal grant. The grants reviewed were from the National Science Foundation (CFDA #47.999) with total match of $55,628 not separately identified on the accounting records. College officials stated they were not aware of the federal regulation. Without the accounting records separately identifying expenditures used to match a specific federal grant, the opportunity for use of the same expenditures to match separate federal grants exists.

Recommendation #5

We recommend the college separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Construction Project Review and Approval

In fiscal year 1988-89, the college entered into an agreement with the Anaconda Job Corps for the renovation of the stadium facility on the college's campus. The estimated value of the renovation is approximately $500,000, most of which was donated by Job Corps or provided by the Montana College of Mineral Science and Technology Foundation (Foundation). The college did not obtain the required review and approval for the project in accordance with state law and Montana university system policy prior to commencement of the project.

The funding for this project was unique, since a substantial portion of the funding was provided through donations. According to the terms of the agreement, the Anaconda Job Corps would provide time and skills of its students in construction and heavy equipment programs, along with the use of heavy equipment made available by the Job Corps at no cost

to the college. The college would provide all supplies, materials and professional skills necessary to complete the project. The funding for the college's responsibilities on this project was to be provided through a combination of state funds and moneys raised by the Foundation.

Section 18-2-103, MCA, requires all construction of a building costing more than $25,000 be reviewed by the Department of Administration. Section 18-2-101, MCA, states a "building" includes a building, facility, or structure, and defines "construction" to include construction, alteration, repair, maintenance, and remodeling of a building. College officials stated the Department of Administration, Architecture & Engineering Division (A&E), was aware of the stadium project and had approved using the Anaconda Job Corps to complete the project. However, the college could not provide us with documentation of A&E's approval of the project. Through discussion with A&E's personnel, we determined A&E was aware of the project but had not given formal approval for the project.

Section 18-2-102, MCA states, "The regents of the Montana university system, with the consent of the governor, may authorize the construction of a building that is financed wholly with federal or private moneys if the construction of the building will not result in a new program." Montana university system policy requires approval of plant fund expenditures between $10,000 and $25,000 by the Commissioner of Higher Education. The policy also requires all expenditures in excess of $25,000 for any project be approved by the Board of Regents. The college requested approval for the project expenditures from the Commissioner of Higher Education stating the expenditures were estimated at approximately $24,000 for fiscal years 1988-89 and 1989-90. The college recorded stadium project expenditures of $49,780 during this period. Since both the estimated and actual expenditures exceeded the $25,000 limit, the college should have received Board of Regents' approval for the project.

The approval process for construction projects was established in order to coordinate state facilities in a manner in which state property is safe and efficient. Therefore, it is important that

projects within stated parameters be reviewed by the appropriate officials.

Recommendation #6

We recommend the college obtain required review and approval in accordance with state laws and Montana university system policy prior to commencement of building projects.

Unrecorded Activity

The Montana College of Mineral Science and Technology Foundation (Foundation) is a private, nonprofit, tax-exempt corporation established to solicit and receive donations to fund various activities at the college. The college and the Foundation are distinct and separate legal entities. During the audit we noted two instances where the college gave state moneys to the Foundation.

Stadium Lease Agreement

The college entered into an agreement during fiscal year 1989-90 to lease the college's stadium to a local baseball corporation. Terms of the agreement required the corporation to pay the college $18,000 on or before May 16, 1990 for the rent of facilities, office space, and electric costs for the period of time defined in the contract (i.e., four-year lease agreement). The college received the full payment on June 29, 1990 and gave it to the Foundation, which recorded the payment on its accounting records. Therefore, the moneys were never deposited in the state treasury or recorded on the college's accounting records. Since the lease agreement is between the college and the corporation, moneys received are required to be recorded and accounted for as state property. College officials agree the moneys should have been recorded on the state's accounting records and stated they will request the Foundation to transfe. the funds to the college.

Student Account

The Associated Students of Montana College of Mineral Science and Technology (ASMCMST) is an organization representing all registered students at the college. ASMCMST receives funding from activity fees and athletic fees. The Board of Regents and the college administration do not take an active role in the day-to-day operations of ASMCMST. However, the student organization must follow the Montana university system's policies and procedures. According to these policies, ASMCMST's constitution is subject to approval by the President of the college and ASMCMST must follow applicable state and federal laws and regulations.

We noted during fiscal year 1989-90 the college transferred $1,000 of student fees to the Foundation on behalf of ASMCMST. According to 35 Opinions of the Attorney General, Number 74, all mandatory student fees are public funds. The college handles approximately $180,000 of ASMCMST moneys each fiscal year through the state's accounting system.

Since these funds were not maintained by the college and a contract between the parties did not exist, controls were not in place to ensure public funds were spent in accordance with state laws or Montana university system policies. College officials stated they did not know when or why the account was established at the Foundation, but thought it was used for discretionary purposes. College officials agreed the money should not be at the Foundation and stated they would request the Foundation to transfer it to the college.

Recommendation #7

We recommend the college deposit all college moneys in the state treasury and account for its financial activity on the state's accounting records.

Internal Control

The college's responsibilities include establishing and maintaining adequate systems of internal control. The objectives of a system of internal control are to provide management with reasonable assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded; and reliable data is recorded, maintained, and disclosed in management reports. Because of inherent limitations in any system of control, errors or irregularities may occur and not be detected. However, a good control system reduces the risk of such errors or irregularities.

The college's budgeted personal service expenditures were approximately $9 million a year in fiscal years 1988-89 and 1989-90. Our audit identified areas where we believe the college should improve controls over its payroll system. The areas noted relate to negative leave balances, inadequate segregation of duties in the distribution of payroll, incorrect calculation of payroll deductions, and records retention. The number of findings described below indicate there are significant control weaknesses in the payroll system. Suggestions for strengthening these controls are discussed in the summary at the end of this report section on page 16.

Leave Balances

The computer system used by the college to generate its payroll does not monitor leave balances to determine if a sufficient balance is available prior to paying the employee. Additionally, payroll personnel do not perform a review of leave balances for employees on the payroll system prior to the processing of the monthly payroll. The monthly payroll is processed and leave balances are reviewed after the fact. In our review of manual employee leave records we noted eight instances in fiscal years 1988-89 and 1989-90 in which employees carried negative leave balances for extended periods of time. As a result, employees were paid more than they were entitled to receive.

College personnel stated as long as the employee has an adequate leave balance in another category, they allow leave balances to run negative. State policy, Montana Operations Manual

(MOMs), sections 3-0305 and 3-0310 state, "Leave credits may not be advanced nor may leave be taken retroactively." The college should establish procedures to ensure leave is earned before taken in accordance with state policy.

Distribution of Payroll

During the audit we observed a payroll distribution at the college and noted the following areas of concern.

- An adequate segregation of duties does not exist within the college's payroll system. One employee inputs payroll information to the computer system. When the input process is complete the information is transferred to the State Auditor's Office, where the individual employee warrants are generated. Prior to pay day the warrants are mailed from the State Auditor's Office to the college. The warrants are then delivered to the payroll office where the same employee is involved in the distribution of the warrants to employees. Since the same employee can generate the warrants and has access to the warrants once generated, the potential exists for the creation of fictitious employee warrants. Subsequent to our audit the college changed its distribution procedures which allows for a proper segregation of duties.

- We noted several instances where someone other than the payee of the warrant picked up warrants from the college's payroll office. Payroll personnel did not require approval from the absent employee nor did they require the individual to sign for the warrant being picked up. It is important the college document the person picking up a warrant for another employee and require acknowledgement of receipt by that person through their signature. This provides the college with support in case the warrant is misplaced or incorrectly distributed. Subsequent to our audit the college established procedures requiring documentation of approval to pick up third-party warrants.

Calculation of Deductions

At the beginning of each calendar year the college is required to update deduction information on its computer system. This allows the computer to properly calculate deductions from employee's gross pay. The Internal Revenue Service (IRS) publishes a federal income tax withholding schedule for each calendar year. During our audit we sampled payroll items to

ensure the college's computer system properly calculated deductions according to the proper federal and state rates. For calendar year 1990 we noted the college did not update its computer system for the new IRS withholding table. College personnel stated the IRS withholding table was overlooked when the computer was updated at the beginning of the calendar year for required changes. The IRS regulations require taxes withheld from each wage payment be made according to the correct withholding table.

As a result of this error, employees at the college had more taxes withheld from each check than was required by federal law during the majority of calendar year 1990. Subsequent to our audit, college personnel corrected the information on the computer system for the last two months of the 1990 calendar year. The college should establish procedures to ensure required payroll system changes are made at the beginning of each calendar year. In addition, these procedures should include a test run of data to ensure proper calculation of payroll deductions.

Records Retention

State policy requires agencies to "collect and store personnel data which is relevant to an agency's purpose and to ensure that records are accurate, timely, and complete." During our review of payroll we noted the following instances where payroll files were not adequate to support payroll information.

- One file reviewed contained only a W-4 tax withholding form. No documentation existed to indicate the employee's rate of pay, job position, expected work hours or emergency information. College personnel stated the employee works only during registration and was hired several years earlier. All the hiring information was in the equal opportunity file which was destroyed after three years. The college should ensure all relevant data is kept in the employee's file.

- At the completion of the payroll process each month college personnel reconcile the initial payroll input to the final payroll processed to ensure it is complete and accurate. During fiscal year 1989-90, personnel started discarding the initial input documentation after the reconciliation was performed. As a result, the college's monthly payroll was

not adequately supported. State policy provides guidelines for retaining supporting documentation. These guidelines require the college to retain this documentation for a minimum of four years. Payroll personnel stated they did not think the retention of the documentation was necessary.

Summary

The college should establish an adequate payroll control system which includes, but is not limited to ensuring:

1. Leave is earned before taken in accordance with state policy.
2. An adequate segregation of duties exists in the distribution of payroll.
3. Warrants are distributed to the proper employee or documentation is maintained for authorization for another individual to pick up a warrant and acknowledgement of the individual who picked the warrant up.
4. Proper rates are used in calculating payroll deductions.
5. Personnel files are complete and records are retained in accordance with state policy.

These controls would enable management personnel to better ensure the completeness and accuracy of payroll records.

Recommendation #8

We recommend the college establish and implement an adequate control system over payroll.

Accounting Records

College financial information is used by college personnel, Commissioner of Higher Education officials, budget analysts, and legislators to manage and establish funding levels for the college. The following report sections discuss instances where the college's accounting records were not in compliance with

section 17-1-102(4), MCA. This law requires state agencies to maintain their accounting records in accordance with generally accepted accounting principles (GAAP). We also noted instances where the college's financial activity was not recorded in accordance with state accounting policy.

Loan Fund

During the audit, we noted the college maintains a short-term loan account derived from donations or gifts made to the college from private sources. According to college officials, the gifts and donations were made for the purpose of providing short-term loans to students attending the college. However, they could not provide documentation restricting these moneys. The fund balance of this loan account was $80,940 at June 30, 1990. We also noted that interest earned from investment of the donated loan fund moneys was transferred from the loan fund to the college's scholarship account which is recorded in the current restricted fund. The college transferred $6,589 and $6,737 during fiscal years 1988-89 and 1989-90, respectively.

Without documented restrictions externally imposed on these funds, the funds should be recorded in the Current Unrestricted Fund. Section 17-2-102, MCA, requires resources free of externally imposed restrictions that can be expended for general operations be accounted for in the Current Unrestricted Fund. Additionally, if internal restrictions were imposed on these funds, generally accepted accounting principles require interest earned on loan funds be accounted for in the same fund. College officials stated that the loan account was established in the 1950s and the donations have remained there since. They also stated because the account was approximately forty years old they were unable to find documentation restricting the use of these moneys.

Recommendation #9

We recommend the college transfer the loan account to the Current Unrestricted Fund in accordance with state law.

Duplicate Payments

The college purchases equipment and supplies from the Department of Administration, Property & Supply Bureau and from vendors outside state government. The business office receives various types of requests for payment (i.e., invoices, statements, work tickets, and packing lists) from vendors for purchases made by the college. Our initial control testing at the college indicated a potential problem with duplicate payments. Therefore, we reviewed warrants cancelled by the college during the audit period to determine the reason for cancellation. Our review indicated that at least six instances of duplicate payments were detected when the vendor returned the warrant.

Management Memo 2-84-3 requires state agencies to review and approve invoices prior to payment. In addition, state policy states, "Payments should be supported by original invoice. If the original invoice is considered or proven lost, the vendor should submit another invoice, certified to be an 'original'."

College personnel stated they maintain an alpha file which is reviewed to prevent duplicate payment of claims. Our review of supporting documentation for the duplicate payments indicated that although a review is performed, the college does not always pay off original invoices, which resulted in duplicate payments during the audit period.

Recommendation #10

We recommend the college establish procedures in accordance with state policy to minimize duplicate payments.

Write off of Accounts Receivable

State policy outlines the guidelines which agencies are required to follow when writing off uncollectible accounts receivable. During our audit work, we noted the college does not account for write off of accounts receivable in accordance with state policy. Management Memo 2-82-5 requires bad debts be written off as an expense. The college's current policy states bad debts are written off against revenues and not as an expense. The college wrote off approximately $7,000 and $7,700 in bad debts during fiscal years 1988-89 and 1989-90, respectively. Procedures used by the college resulted in an understatement of revenues and expenditures of the amounts noted.

Recommendation #11

We recommend the college write off accounts receivable in accordance with state policy.

Accounts Receivable Reconciliation

During fiscal year 1988-89, the college installed a new student accounts receivable system. All student receivables and payments are recorded on this system. The college performed reconciliations of fiscal year-end information to determine if Statewide Budgeting and Accounting System was complete and accurate; however, during testing we noted the reconciliations were not performed timely. The fiscal year 1988-89 reconciliation was performed during August 1989 and fiscal year 1989-90 reconciliation during October 1990.

Section 17-1-102, MCA, requires, "All state agencies, including units of the university system and the vocational-technical centers, shall input all necessary transactions to the accounting system . . .before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all

money and property for which the agency is accountable in accordance with generally accepted accounting principles."

We noted three errors on the state's accounting records due to untimely reconciliations. The college incorrectly recorded a rent payment of $195 in the Current Unrestricted Fund, did not transfer tuition and fees of $1,210 from the Agency Fund to the Current Unrestricted Fund, and incorrectly accounted for $394 of student withdrawals.

The college's reconciliations detected the noted errors. However, because the college's reconciliations were not timely, it could not correct the state's accounting records because the fiscal year was closed. By not performing timely reconciliations the potential exists for material errors to occur. College personnel stated the reconciliations were not performed more timely due to changes in personnel and problems encountered while converting to the student accounts receivable system.

Recommendation #12

We recommend the college perform timely accounts receivable reconciliations to ensure the accuracy and completeness of the state's accounting records.

Independent Auditor's Report & College Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The Independent Auditor's Report issued in this report is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial statements indicates the statements are fairly stated in all material respects and the reader can rely on the reasonableness of the information presented in the statements shown on pages 24 through 36, when analyzing the college's operations.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

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LEGAL COUNSEL:
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Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana College of Mineral Science and Technology as of June 30, 1990, and the related Statements of Changes in Fund Balances and the Statements of Current Funds' Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana College of Mineral Science and Technology as of June 30, 1990, and the changes in its fund balances and the current funds' revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Facilities Refunding Revenue Bonds, Series A 1986, Schedule of Assets and Liabilities and Fund Balances; Schedule of Changes in Fund Balances; and Schedule of Current Funds' Revenue and Expenditures as of and for the fiscal year ended June 30, 1990 is presented as supplemental information and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 9, 1990

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BALANCE SHEET
JUNE 30, 1990

ASSETS

	CURRENT FUNDS							PLANT FUNDS		
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	AGENCY FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
CASH ON HAND AND IN BANK	$ 15,105	-	-	-	$ 4,223	-	-	$ 69	$ 195	-
CASH ON DEPOSIT WITH STATE TREASURER	569,145	$333,709	$ 85,891	$ 68,999	4,612	$ 229	$102,622	6,572	-	-
RECEIVABLES:										
STUDENT LOANS RECEIVABLE	-	-	-	-	333,118	-	121,605	-	-	-
ACCOUNTS RECEIVABLE	39,503	18,609	263,199	42,034	-	-	-	59,611	-	
ACCRUED INTEREST RECEIVABLE	-	-	-	-	-	-	-	72,256	15,604	-
TRANSFERS TO CONSTRUCTION ACCOUNT	-	-	-	-	-	-	-	3,329	-	-
LESS ALLOWANCE FOR DOUBTFUL LOANS	-	-	-	-	(7,500)	-	-	-	-	-
TOTAL RECEIVABLES	39,503	18,609	263,199	42,034	325,618	0	121,605	135,196	15,604	0
INVESTMENTS:										
HELD BY TRUSTEES	-	-	-	-	-	-	-	374,600	606,973	-
STATE OF MONTANA SHORT-TERM INVESTMENT POOL	-	46,100	144,000	73,800	113,500	372,500	57,514	73,000	-	-
TOTAL INVESTMENTS	0	46,100	144,000	73,800	113,500	372,500	57,514	447,600	606,973	0
OTHER ASSETS:										
PREPAID EXPENSES AND ADVANCES	96,002	4,225	-	410	1,850	-	-	-	-	-
INVENTORIES	71,693	17,027	-	398,346	-	-	-	-	-	-
TOTAL OTHER ASSETS	167,695	21,252	0	398,736	1,850	0	0	0	0	0
DUE FROM(TO) OTHER FUNDS	(453,765)	(30,947)	(104,851)	(10,078)	17	-	610,846	(11,223)	-	-
PROPERTY, PLANT & EQUIPMENT-										
LAND	-	-	-	-	-	-	-	-	-	$ 723,824
BUILDINGS	-	-	-	-	-	-	-	-	-	23,900,015
IMPROVEMENTS	-	-	-	-	-	-	-	-	-	2,515,611
EQUIPMENT	-	-	-	-	-	-	-	-	-	8,924,685
LIBRARY BOOKS	-	-	-	-	-	-	-	-	-	900,608
INTANGIBLE ASSETS	-	-	-	-	-	-	-	-	-	271,992
MUSEUM & ART COLLECTION	-	-	-	-	-	-	-	-	-	305,870
TOTAL PROPERTY, PLANT AND EQUIPMENT	0	0	0	0	0	0	0	0	0	37,542,585
TOTAL ASSETS	$ 337,683	$368,923	$388,239	$573,511	$449,820	$372,729	$892,587	$578,214	$622,772	$37,542,585

Continued next page

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
BALANCE SHEET
JUNE 30, 1990

LIABILITIES AND FUND BALANCES

	CURRENT FUNDS							PLANT FUNDS		
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	AGENCY FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
LIABILITIES:										
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 137,799	$ 24,886	$ 33,382	$ 24,338	-	-	$609,605	$ 8,296	-	-
COMPENSATED ABSENCES	803,375	32,569	-	14,508	-	-	-	-	-	-
ACCRUED BOND INTEREST PAYABLE	-	-	-	-	-	-	-	-	$ 57,900	-
OTHER LIABILITIES AND DEPOSITS	-	-	-	19,878		-	282,982	-	-	-
DEFERRED REVENUES	81,393	100	115,597	3,791		-	-	8,432	-	-
BONDS PAYABLE (Note 3)	-	-	-	-	-	-	-	-	-	$ 6,255,000
LONG TERM LEASE PAYMENT	-	-	-	-	-	-	-	-	-	152,662
TOTAL LIABILITIES	1,022,567	57,555	148,979	62,515	0	0	892,587	16,728	57,900	6,407,662
FUND BALANCES	(684,884)	331,368	239,260	510,996	$449,820	$372,729	-	-	564,872	31,134,923
UNEXPENDED								180,931		
RENEWAL AND REPLACEMENT								380,555		
TOTAL LIABILITIES AND FUND BALANCES	$ 337,683	$388,923	$388,239	$573,511	$449,820	$372,729	$892,587	$578,214	$622,772	$37,542,585

See notes to financial statements

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1990

	CURRENT FUNDS						PLANT FUNDS		
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
REVENUES AND OTHER ADDITIONS									
CURRENT FUND REVENUES									
COLLEGE	$ 8,955,754	$666,488	$2,679,864	$1,519,864				-	
BUREAU OF MINES AND GEOLOGY	1 335,033						-	-	
AND GRANT INCOME (Note 6)							$ 437,769	-	
RESTRICTED STUDENT FEES							189,192	-	
STATE APPROPRIATION					-		48,010	-	
FEDERAL CAPITAL CONTRIBUTIONS					$ 25,000		-	$ 22,938	
INVESTMENT INCOME		8,191	38,391	7,237	8,075		51,078	51,682	
INTEREST ON LOANS					5,379		-	-	
EXPENDED FOR PLANT FACILITIES					-		-	-	$ 831,143
PRIVATE GIFTS & DONATIONS						$185,130	0	-	82,872
Other					3,223	-	12,264	-	0
DECREASE OF INDEBTEDNESS							-		145,436
TOTAL REVENUES AND OTHER ADDITIONS	10,290,787	674,679	2,518,255	1,527,101	41,669	185,130	738,313	74,620	1,059,451
EXPENDITURES AND OTHER DEDUCTIONS									
EDUCATIONAL AND GENERAL EXPENDITURES									
COLLEGE	8,959,676	676,748	2,341,301	1,374,075				-	
BUREAU OF MINES AND GEOLOGY	1,358,922								
INDIRECT COST RECOVERIES			146,184					-	
PROVISION FOR ALLOWANCES	104,51	5,323		(123)				-	
LOAN CANCELLATIONS AND BAD DEBT EXPENSES					2,673				
[illegible] ON COST					512				
EXPENSE FOR PLANT FAC							372,88'		
RETIREMENT OF INDEBTEDNESS							-	145,000	
INTEREST OF INDEBTEDNESS								465,436	
EXPENDITURES OF PLANT FACILITIES							-	-	316,748
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	1 ,423 107	682,[illegible]	2,487,485	1,373,952	3,185	0	372,885	590,436	316,748

Continued next page

MONTANA COLLEGE [illegible] SCHOOL OF MINES AND TECHNOLOGY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1990

	Current Funds					Plant Funds		
	Unrestricted General Operating	Designated	Restricted	Auxiliaries	Student Loan Funds	Endowment Funds	Unexpended	Retirement of Indebtedness
[illegible]							$(522,100)	$522,100
[illegible]			$ 6,737	$ (147,[illegible])	$ (6,737)		147,202	
[illegible]			6,737	(147,[illegible])	(6,737)		(374,898)	522,100
[illegible]	$(132,320)	$ (7,592)	37,507	5,947	31,747	$185,550	(9,470)	6,284
[illegible]	(512,564)	358,760	201,753	505,049	418,073	187,599	570,956	558,588
[illegible]	$(644,884)	$351,168	$ 239,260	$ 510,996	$449,820	$373,729	$ 561,686	$564,872
[illegible]	$ 106,624			$ 525,504				
[illegible]	(805,975	$(3,548)		(14,508)	$ 80,94[illegible]			
[illegible]						$ 38,[illegible]		
[illegible]			$ [illegible]59,[illegible]		368,880	334,729	$ 180,931	$564,872
[illegible]							380,555	
[illegible]								$31,134,923
[illegible]	$ [illegible]644,884	$351,168	$ 239,260	$ 510,996	$449,[illegible]	$373,729	$ 561,686	$564,872	$31,134,923

See notes to financial statements

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CURRENT FUNDS' REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1990

	UNRESTRICTED GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
REVENUES:				
TUITION AND FEES	$ 1,909,464	-	-	-
STATE APPROPRIATIONS:				
COLLEGE	7,009,692	-	-	-
BUREAU OF MINES AND GEOLOGY	1,291,342	-	-	-
INDIRECT COST REVENUES	36,598	-	-	-
FEDERAL GRANTS & CONTRACT	-	-	$1,451,251	-
STATE GRANTS & CONTRACT	-	-	357,085	-
PRIVATE GRANTS & CONTRACTS	-	-	532,965	-
AUXILIARY ENTERPRISES	-	-	-	$1,527,101
SALES AND SERVICES:				
BUREAU OF MINES AND GEOLOGY	43,691	-	-	-
DESIGNATED	-	$674,679	-	-
TOTAL REVENUES	10,290,787	674,679	2,341,301	1,527,101
EXPENDITURES:				
INSTRUCTIONAL	4,517,661	-	24,425	-
ORGANIZED RESEARCH	38,239	-	925,738	-
ACADEMIC SUPPORT	659,776	-	320,225	-
STUDENT SERVICES AND AID	1,137,445	-	90,389	-
OPERATION AND MAINTENANCE OF PLANT	1,529,081	-	-	-
INSTITUTIONAL SUPPORT	867,044	676,748	-	1,374,075
SCHOLARSHIPS AND FELLOWSHIPS	270,428	-	980,524	-
RECOVERY FROM BUREAU OF MINES AND GEOLOGY	(60,000)	-	-	-
	8,959,674	676,748	2,341,301	1,374,075
INDEPENDENT OPERATIONS:				
BUREAU OF MINES & GEOLOGY	1,298,922	-	-	-
SERVICES PROVIDED BY COLLEGE	60,000	-	-	-
COMPENSATED ABSENCES	104,511	5,323	-	(123)
TOTAL EXPENDITURES	10,423,107	682,071	2,341,301	1,373,952
TRANSFERS, INCREASE (DECREASE):				
VOLUNTARY TRANSFERS:				
RESTRICTED	-	-	6,737	(147,202)
EXCESS OF TRANSFERS TO REVENUE OVER RESTRICTED RECEIPTS	-	-	30,770	-
TOTAL TRANSFERS	0	0	37,507	(147,202)
NET INCREASE (DECREASE) IN FUND BALANCE	$ (132,320)	$ (7,392)	$ 37,507	$ 5,947

See notes to financial statements

[illegible] COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	[illegible] FUNDS						[illegible] FUNDS		
	[illegible] OPERATING	[illegible]	[illegible] PLANT	ANNUITIES	STUDENT LOAN FUNDS	ENDOWMENT FUNDS	[illegible]	RESTRICTED EXPENDABLE	INVESTMENT IN PLANT
[illegible]									
[illegible]	$4[illegible],646	$464,159	$2[illegible]19,31	$1[illegible]395,4					
[illegible]	[illegible],9								
[illegible]							$4[illegible],388		
[illegible]							[illegible] OF		
[illegible]							119,24[illegible]		
[illegible]									
[illegible]								$22,938	
[illegible]		8,53[illegible]	29,4[illegible]6	[illegible],979	$ [illegible] 580	$ [illegible] 37	52,565	48,906	
[illegible]					4,754				
[illegible]									
[illegible]									$ 841,319
[illegible]						[illegible]			86,625
[illegible]					177		15,157		
[illegible]									199,080
[illegible]									
[illegible]	[illegible]	657,6[illegible]	[illegible],7[illegible]8	1,4[illegible]5,589	[illegible],511	[illegible]	784,417	71,844	[illegible],104,824
[illegible]									
[illegible]									
[illegible]									
[illegible]	[illegible]	58[illegible]3	[illegible],096	[illegible],[illegible]31					
[illegible]	[illegible],[illegible]56								
[illegible]			168,7[illegible]						
[illegible]	61,831	[illegible]		[illegible],[illegible]					
[illegible]									
[illegible]					2,[illegible]				
[illegible]					38[illegible]				
[illegible]							[illegible],5[illegible]		
[illegible]								[illegible]	
[illegible]								673,[illegible]	
[illegible]									[illegible],[illegible]74
[illegible]									
[illegible]	[illegible],[illegible]768	582,815	[illegible],519,81	[illegible],[illegible],190	[illegible],[illegible]981	[illegible]	729,567	593,586	[illegible],[illegible]74

Continued next page

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNO
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1999

	CURRENT FUNDS						PLANT FUNDS		
	UNRESTRICTED GENERAL OPERATING	DESIGNATED	RESTRICTED	AUXILIARIES	STUDENT LOAN FUND	ENDOWMENT FUND	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
[illegible]									
[illegible]									
[illegible]									
[illegible]									
[illegible]							$(521,778)	$521,778	
[illegible]									
[illegible]			$ 7,589	$ (150,000)	$ (6,589)		150,000		
[illegible]			6,589	(150,000)	(6,589)		591,778	521,778	
[illegible]									
[illegible]	$ [illegible] (6%)	$ 74,875	35,496	51,399	3,961	$ [illegible] 53	(336,928)	36	$ (38,850)
[illegible]	(715,370)	263,885	166,259	433,950	414,13[illegible]	176,446	907,884	558,552	30,429,070
[illegible]	$ (552,564)	$338,760	$ [illegible],753	$ 505,049	$418,[illegible]73	$187,599	$ 570,956	$558,588	$30,390,220
[illegible]									
[illegible]	$ [illegible] 345			$ 519,879					
[illegible]	35,95[illegible]								
[illegible]	(890,864)	$[illegible],746)		(14,630)					
[illegible]		366,[illegible]			$ 81,[illegible]				
[illegible]						$ 18,[illegible]			
[illegible]									
[illegible]			$ [illegible],[illegible]1		336,[illegible]	169,599		$558,588	
[illegible]							$ 144,[illegible]70		
[illegible]							4[illegible],886		
[illegible]									$30,390,220
[illegible]	$ [illegible]	$139,[illegible]	$ [illegible],753	$ 505,049	$418,[illegible]3	$187,599	$ [illegible],956	$558,588	$30,390,220

See notes to financial statements

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
STATEMENT OF CURRENT FUNDS' REVENUES, EXPENDITURES AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1989

	UNRESTRICTED GENERAL OPERATING FUND	DESIGNATED FUND	RESTRICTED FUND	AUXILIARIES FUND
REVENUES:				
TUITION AND FEES	$ 1,714,782	-	-	-
STATE APPROPRIATIONS:				
COLLEGE	6,459,939	-	-	-
BUREAU OF MINES AND GEOLOGY	1,233,452	-	-	-
INDIRECT COST REVENUES	52,941	-	-	-
FEDERAL GRANTS & CONTRACT	-	-	$1,443,011	-
STATE GRANTS & CONTRACT	-	-	315,946	-
PRIVATE GRANTS & CONTRACTS	-	-	592,139	-
AUXILIARY ENTERPRISES	-	-	-	$1,401,589
SALES AND SERVICES:				
BUREAU OF MINES AND GEOLOGY	47,458	-	-	-
DESIGNATED	-	$657,690	-	-
TOTAL REVENUES	9,508,572	657,690	2,351,096	1,401,589
EXPENDITURES:				
INSTRUCTIONAL	4,098,476	-	-	-
ORGANIZED RESEARCH	44,810	-	1,055,413	-
ACADEMIC SUPPORT	629,199	-	298,000	-
STUDENT SERVICES AND AID	1,074,249	-	101,600	-
OPERATION AND MAINTENANCE OF PLANT	1,490,238	-	-	-
INSTITUTIONAL SUPPORT	742,385	586,903	-	1,217,631
SCHOLARSHIPS AND FELLOWSHIPS	206,442	-	896,083	-
RECOVERY FROM BUREAU OF MINES AND GEOLOGY	(60,000)	-	-	-
	8,225,799	586,903	2,351,096	1,217,631
INDEPENDENT OPERATIONS:				
BUREAU OF MINES & GEOLOGY	1,198,136	-	-	-
SERVICES PROVIDED BY COLLEGE	60,000	-	-	-
COMPENSATED ABSENCES	61,831	(4,088)	-	2,559
TOTAL EXPENDITURES	9,545,766	582,815	2,351,096	1,220,190
TRANSFERS, INCREASE (DECREASE):				
VOLUNTARY TRANSFERS:				
RESTRICTED	-	-	6,589	(130,000)
EXCESS OF TRANSFERS TO REVENUE OVER RESTRICTED RECEIPTS	-	-	28,905	-
TOTAL TRANSFERS	0	0	35,494	(130,000)
NET INCREASE (DECREASE) IN FUND BALANCE	$ (37,194)	$ 74,875	$ 35,494	$ 51,399

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

The financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statements of current funds' revenues, expenditures and other changes are statements of financial activities of current funds related to the current reporting period and do not purport to present the results of operations or the net income or loss for the periods.

Fund Accounting

The accounts of the college are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use.

Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

Montana Bureau of Mines & Geology, a separate state agency, for appropriation purposes, functions as an integral part of the college. Applicable revenues and expenditures are identified separately in the financial reports.

The common characteristics of the funds contained in the various groups are as follows:

Current Funds:

The current funds group includes economic resources expendable in performing the primary objectives of the university, i.e., instruction, research and public service. The current funds' group have two basic distinct subgroups: unrestricted funds which have no expenditure restrictions and restricted funds which have expenditure restrictions.

Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the college. Appropriations in the General Operating account are made by the Legislature for operating purposes of Montana College of Mineral Science and Technology. Expenditures against these appropriations are funded by corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year-end.

Designated - utilized for education and laboratorial related service activities which are self-supporting. These funds are separately classified in order to accumulate and distinguish the cost of these specialized services or function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty and staff (self-supporting).

Restricted current funds are utilized for financing current operations, but limited by external donors and funding agencies to specific purposes, programs and departments.

Student Loan Funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by government, private, and college sources with the majority of the funds being provided by the federal government.

Endowment Funds:

Endowment funds are funds with specific donor or other outside agency restrictions limiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant Funds:

Plant funds are separated into three distinct self-balancing subgroup accounts:

Unexpended Plant - utilized for long-term institutional assets and for institutional asset maintenance.

Retirement of Indebtedness - utilized for debt servicing and retirement of indebtedness.

Investment in Plant - denotes the cost of long-term institutional assets and related liabilities and equity.

Agency Funds:

Agency funds - includes assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Inventories:

Inventories, which consist mainly of bookstore supplies, are valued at cost (first-in/first-out method).

Plant and Equipment:

Equipment acquired with restricted grants and contracts are recorded as addition to investment in plant at the time of purchase. On certain grants and contracts, title to equipment purchased is vested with the grantor or contractor until completion of the project at which time the equipment may revert to the college.

Capital additions funded directly by the state and federal government during the year ended June 30, 1990 are recorded as additions to investment in plant.

No provision has been made for depreciation of plant facilities.

Unearned Tuition and Fees:

Summer school tuition and fee revenues and related expenses are deferred at June 30 and recorded as revenue and expense in the succeeding fiscal years.

Retirement Plans:

Eligible employees of the Montana College of Mineral Science and Technology are members of the Montana Public Employees' Retirement System or Montana Teachers' Retirement System. The college's contribution to the plans totaled $463,166 for the year ended June 30, 1990 and $433,879 for the year ended June 30, 1989. At July 1, 1990, the Public Employees' Retirement System, and at July 1, 1989, the Teachers' Retirement System were determined to be actuarially sound as reported by the systems' actuary. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for members of the plans employed by the college.

During FY 88, TIAA-CREF optional retirement plan was made available to contract faculty and certain professional administrative employees. The college's contribution to the plan totaled $23,295 for the year ended June 30, 1990 and $20,004 for the year ended June 30, 1989.

Statewide Budgeting and Accounting System:

The balance sheet, statement of changes in fund balances and statement of current funds' revenues, expenditures and other changes have been prepared in accordance with generally accepted accounting principles; consequently, these reports may differ from the financial information recorded in the Statewide Budgeting and Accounting System.

NOTE 2 - INVESTMENTS

Investments at June 30, 1990 consisted of the following:

	1990
Montana Common Stock Pool (Mont Comp)	$ 42,014
Montana Short-term Investment Pool (STIP)	838,400
First Bank Trustee Account	981,573
	$1,861,987

Investments are carried at cost which approximate market value at June 30, 1990. The investments are insured and are held by the state or its trustee for the college. Bond trustee investments comprise government securities that are classified in risk category 1.

The investments at June 30, 1990 are owned by the following funds:

	1990
Designated Funds	$ 46,100
Restricted Funds	144,000
Auxiliaries Fund	73,800
Student Loan Fund	113,500
Endowment Fund	372,500
Agency Fund	57,514
Unexpended Plant Fund	447,600
Retirement of Indebtedness Plant Fund	606,973
	$1,861,987

NOTE 3 - BONDS PAYABLE

At June 30, 1990, bonds payable are Facilities Refunding Revenue Bonds, Series A 1986 with a balance outstanding of $6,255,000.

The proceeds of the bonds, together with certain funds and monies of the College and certain proceeds of Bonds refunded by the Series A 1986 Bonds, provided funds for the construction, renovation, equipment and improvement of certain facilities at and for Montana College of Mineral Science and Technology, for refunding certain outstanding indebtedness of the Board of Regents of Higher Education issued for or incurred by Montana College of Mineral Science and Technology, for paying the costs of issuance of the Series A 1986 Bonds, for funding the debt service reserve requirement for the Series A 1986 Bonds and for funding part of the repair and replacement requirement for the Income Facilities.

The Facilities Refunding Revenue Bonds, Series A 1986 indenture provides, among other things, that the College will maintain revenues to meet required annual principal and interest payments and annual operation and maintenance expense, that the College will maintain a bond and interest sinking fund account and repair and replacement reserve account, provide audited financial statements of the College to the trustee within a specified period of time as well as to any requesting bondholders, and pledge and appropriate all monies received by the College from income facilities, student building fees, land grant income, the Federal Debt Service Grant received by the College and investment income from the funds for the retirement of bonds payable.

The principal amounts of the bonds mature on November 15th of varying years with varying interest rates as follows:

MATURITY (November 15)	PRINCIPAL AMOUNTS MATURING	INTEREST RATE (PER ANNUM)
1990	135,000	6.20%
1991	145,000	6.35%
1992	155,000	6.50%
1993	160,000	6.60%
1994-2009	5,560,000	6.70 - 7.625%

NOTE 4 - LAND GRANT STATUS

The congress of the United States, by the enabling act approved February 22, 1889, granted to the State of Montana 100,000 acres for the college and provided that all monies received from the sale of lands belonging to this grant, together with proceeds from the sale of timber, oil royalties and other minerals, should be credited to a permanent fund for each of the land grant institutions. These monies are currently pledged to the Series A 1986 revenue bonds. It also provided that permanent funds could not be used for any other purpose and must remain forever inviolate as the property of each of the land grant funds.

The college's land grant assets are not reflected in these financial statements, but are shown in the Montana Department of Lands' financial statements.

NOTE 5 - COMPENSATED ABSENCES

On July 1, 1982, the college started accounting for unused vacation and sick leave in accordance with the Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences. Permanent employees can accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is paid at full value to employees upon termination. Upon termination, unused sick leave earned since July 1, 1971, is paid to the employee at 25% value.

The accumulated liability for compensated absences totaled $850,452 for the year ended June 30, 1990.

NOTE 6 - NOTES PAYABLE

A note payable is due Pacificorp Capital and Ford Motor Co. for the purchase of digital computer equipment. It is payable in monthly payments of $7,009, including interest, to June 1991. The principal payment for FY91 is $63,179.

A note payable is due Xerox Corp for the purchase of Xerox copying equipment. It is payable in monthly payments of $1,200 including interest, to June 1995. Minimum principal & rent payments are:

Fiscal Year	1991	1992	1993	1994	1995
	$11,540	$11,540	$11,540	$11,540	$10,578

A note is due to the State of Montana Telecommunications Bureau for a phone upgrade system. It is payable in monthly payments of $1,130 including interest, to December 1993. Minimum principal and rent payments are:

Fiscal Year	1991	1992	1993	1994
	$10,463	$11,396	$12,411	$6,614

A note is due to Prime Computer Incorporated for the purchase of Prime 4050 CPU. It is payable in monthly payments of $850 including interest, to December 1995. Minimum principal payments are:

Fiscal Year	1991	1992	1993	1994	1995
	$7,641	$7,641	$7,641	$7,641	$3,184

NOTE 7 - MUSEUM BUILDING FIRE

The Museum Building received extensive fire damage on the evening of February 7, 1990 at 8:30 p.m. Representatives from the Department of Administration and Tort Claims Division were on campus the following morning to coordinate insurance and related activities. The coordination for fire damage clean-up, repair, renovation, and replacement is being processed through the Physical Plant working with the Department of Administration. Claims have been processed through the Architecture & Engineering Division. Claims paid as of June 30, 1990 totaled $56,185. Total claims are expected to be in excess of $275,000.

NOTE 8 - JOB CORPS PROJECT

Having received Federal approval, Montana Tech has entered into a cooperative agreement with the Deer Lodge National Forest and the Anaconda Job Corps to provide various services to the college which include improvements, extensions, enlargements, repairs and betterments related to the Health Physical Education Recreation (HPER) outdoor facilities including the stadium. The work commenced late spring of 1989 and is expected to be completed in the fall of 1991. The cost of donated labor and increased value to the college is estimated to be in excess of $500,000.

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
FACILITIES REFUNDING REVENUE BONDS, SERIES A 1986

SCHEDULE OF ASSETS AND LIABILITIES AND FUND BALANCES
JUNE 30, 1990

	CURRENT FUNDS	PLANT FUNDS	
	Pledged Auxiliaries	Unexpended	Retirement of Indebtedness
ASSETS			
Cash On Deposit	$ 59,672	$ 5,111	$ 195
Accounts and Interest Receivable	42,034	131,839	15,604
Investments:			
Held By Trustees	0	439,600	606,973
Other Assets:			
Prepaid Expenses	410	0	0
Inventories	398,346	0	0
Total Other Assets	398,756	0	0
Due From (To) Other Funds	(10,115)	(11,227)	0
Total Assets	$490,347	$565,323	$622,772
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable and Accrued Liabilities	23,047	8,275	57,900
Other Liabilities and Deposits	19,878	0	0
Unearned Revenues	3,791	5,783	0
Total Liabilities	46,716	14,058	57,900
Fund Balances	443,631	551,265	564,872
Total Liabilities and Fund Balances	$490,347	$565,323	$622,772

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
FACILITIES REFUNDING REVENUE BONDS, SERIES A 1986

SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1990

	CURRENT FUNDS	PLANT FUNDS	
	Pledged Auxiliaries	Unexpended	Retirement of Indebtedness
Revenues and Other Additions:			
Unrestricted Fund Revenues	$1,449,653	$ 0	$ 0
Land Grant Income	0	437,770	0
Restricted Student Fees	0	135,422	0
Federal Capital Contributions	0	0	22,938
Investment Income	0	48,169	51,682
Other Income	0	12,263	0
Total Revenues and Other Additions	1,449,653	633,624	74,620
Expenditures and Other Deductions:			
General Expenditures	1,302,451	0	0
Expended For Plant Facilities	0	230,176	0
Retirement of Indebtedness	0	0	125,000
Interest of Indebtedness	0	0	465,436
Total Expenditures and Other Deductions	1,302,451	230,176	590,436
Net Revenue Over (Under) Expenditures	147,202	403,448	(515,816)
Transfer Amount Funds: Additions (Deductions) For Retirement of Indebtedness	(147,202)	(374,898)	522,100
Net Increase (Decrease) In Fund Balance	0	28,550	6,284
Fund Balance Beginning of Year, As Previously Reported	443,631	522,715	558,588
Fund Balance End of Year	$ 443,631	$551,265	$564,872

MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY
FACILITIES REFUNDING REVENUE BONDS, SERIES A 1986

SCHEDULE OF CURRENT FUNDS' REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1990

	Pledged Auxiliaries
Revenues:	
Sales and Services	$ 679,399
Board and Room	687,616
Tuition and Fees	33,764
Other Income	48,874
Total Revenue	1,449,653
Expenditures:	
Cost of Goods Sold	512,036
Personal Services	246,793
Operating Expenses	534,744
Equipment	8,878
Total Expenditures	1,302,451
Revenues in Excess of Expenditures	$ 147,202

Agency Responses

MONTANA TECH
Butte, Montana 59701
(406) 496-4101

March 19, 1991

Mr. Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is our written response to your report on the audit of Montana Tech for the two fiscal years ending June 30, 1990.

On behalf of the staff and the administration, I would like to thank you and your representatives for your cooperation and professionalism in conducting this audit.

Sincerely,

John Badovinac
Controller/Business Manager

JB/lb

Enclosure

cc: Mr. Jack Noble
Dr. Norman
Dr. John Hintz

MONTANA TECH AUDIT REPLY

Recommendation #1

We recommend the college insure federal grant expenditures are properly supported by time and effort reports in accordance with federal regulations.

Response:

Concur. Corrective action has been taken to insure that time and effort reports are in accordance with federal regulations.

Recommendation #2

We recommend the college charge additional compensation in accordance with federal regulations.

Response:

Concur. As noted in the audit report, the procedures were changed in fiscal year 1989-90 to comply with federal regulations. In the future, any additional compensation requests will be approved by the contracting agency prior to payment of additional compensation.

Recommendation #3

We recommend the college establish procedures to charge leave benefits in accordance with federal regulations.

Response:

Concur. Procedures were implemented as of July 1, 1990 to charge sick and vacation benefits to the proper account, thus eliminating duplication of charges to pertinent accounts. This recommendation will also be addressed as a University System issue.

Recommendation #4

We recommend the college:

A. Identify equipment purchased, in part or in whole, with federal funds on the property records in accordance with federal regulations.

Response:

Concur. A plan has been implemented and records have been searched back to July 1, 1984 to determine equipment purchased with federal funds. The equipment will be separately identified in the PAMS system.

Recommendation #4 (cont.)

B. **Conduct a physical inventory of fixed assets in accordance with federal regulations and state policy.**

Response:

Concur. A plan for corrective action has been developed. A timetable is in the process of being developed and will be implemented by FYE.

Recommendation #5

We recommend the college separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations.

Response:

Concur. Appropriate responsibility centers will be set up to separately track matching dollars on matching grants.

Recommendation #6

We recommend the college obtain required review and approval in accordance with state laws and Montana university system prior to commencement of building projects.

Response:

Concur. A BOARD ITEM has been submitted to the CHE for submission at the March 21-22, 1991 Board of Regents meeting for project authorization.

Recommendation #7

We recommend the college deposit all college moneys in the state treasury and account for its financial activity on the state's accounting records.

Response:

Concur. The Foundation has reimbursed the college for the monies in question.

Recommendation #8

We recommend the college establish and implement and adequate control system over payroll.

Response:

Concur. The college has established and implemented adequate controls on the areas discussed in the audit.

Recommendation #9

We recommend the college transfer the loan fund to the Current Unrestricted fund in accordance with state law.

Response:

Concur. A BOARD ITEM has been submitted to the CHE for submission at the March 21-22, 1991 Board of Regents meeting for authorization to designate the monies.

Recommendation #10

We recommend the college establish procedures in accordance with state policy to minimize duplicate payments.

Response:

Concur. Montana Tech has modified internal procedures to address the specific type payments in question.

Recommendation #11

We recommend the college write off accounts receivable in accordance with state policy.

Response:

The CHE is responding to this recommendation as a University System issue.

Recommendation #12

We recommend the college perform timely accounts receivable reconciliations to ensure the accuracy and completeness of the state's accounting records.

Response:

Concur. The college has implemented procedures to perform timely accounts receivable reconciliations to ensure the accuracy and completeness of the state's accounting records.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602
(406) 444 6570

COMMISSIONER OF HIGHER EDUCATION

D 4 1991

March 13, 1991

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

This letter is written in response to an audit recommendation pertaining to Montana College of Mineral Science and Technology for the two years ended June 30, 1990. I appreciate the opportunity to comment since this particular recommendation affects the entire University System.

Sincerely,

Laurie O. Neils

Laurie O. Neils
Director of Budget and Accounting

enclosure

THE MONTANA UNIVERSITY SYSTEM CONSISTS OF THE UNIVERSITY OF MONTANA AT MISSOULA, MONTANA STATE UNIVERSITY AT BOZEMAN, MONTANA COLLEGE OF MINERAL SCIENCE AND TECHNOLOGY AT BUTTE, WESTERN MONTANA COLLEGE AT DILLON, EASTERN MONTANA COLLEGE AT BILLINGS AND NORTHERN MONTANA COLLEGE AT HAVRE.

RECOMMENDATION #11

We recommend the college write off accounts receivable in accordance with state policy.

UNIVERSITY SYSTEM RESPONSE:

Concur.

The University System has been operating without an appropriate policy for the accounting of tuition and fee bad debts. Management Memo 2-82-5, which addresses bad debt transfers, does not effectively address the issue of accounting for higher education tuition and fee bad debts. The University System has proposed a separate policy for higher education. This recommendation was distributed to the Legislative Auditor and the Accounting Bureau Chief for their review. The University System hopes to have a policy in place by fiscal year-end 1991 which accommodates the needs of higher education yet complies with generally accepted accounting principles.